Local Pensions Partnership Investments Ltd

Responsible Investment Policy
Annex on Climate Change

1. Introduction

This annex to our Responsible Investment Policy explains our climate change beliefs and describes our approach to understanding and managing the risks and opportunities climate change presents for the portfolios we manage on behalf of clients.

2. Our Climate Change Beliefs

Climate change poses a long-term and material financial risk to client portfolios. It has the potential to impact value across all the asset classes we invest in globally, but the route scale and timing of this impact is both complex and uncertain.

Climate change is a systemic risk which arises from the physical effects of sustained changes in weather patterns due to global warming and from human interventions to mitigate and manage these changes by adapting to new circumstances through regulation, technological innovation, or other cultural shifts.

Climate change will impact companies globally. It has the potential to destroy value where business risks are not being recognised and integrated into effective strategic planning but also presents opportunities for value creation where products and services can be developed which solve problems and meet societal needs.

The scope, dimensions, materiality and long-term significance of climate change as an investment issue merit specific attention as part of our Responsible Investment approach and the processes we develop to implement this in practice. Aiming to align our stewardship with the objectives of the Paris Agreement, we have set the goal of achieving net zero portfolio emissions by 2050 in partnership with our client pension funds. In November 2021 we signed the Institutional Investors Group on Climate Change (IIGCC) Net Zero Asset Manager Commitment which forms part of the IIGCC Net Zero (1.5°C) Investment Framework.

3. Our Climate Change Beliefs Translated into Practice

Our ultimate objective is to be able to identify, quantify, measure, act, monitor and report to clients on our management of climate change risk on their behalf. This is a significant undertaking with numerous challenges, and we recognise that we remain at an early stage of an ongoing task to evolve our capabilities, access insightful data, set appropriate measures and monitor and report on our progress. The implementation of our net zero commitment will expand the range of measures we need to take (for which planning is underway) but the steps already in place and the areas we have identified for further development are briefly set out below.

Investment Selection & Portfolio Monitoring

Our approach to asset selection (for internally managed assets) and to manager selection and monitoring (for assets managed by external managers) is built around detailed risk analysis and an up-to-date understanding of context as part of due diligence. This approach suits the complexity and multi-dimensional nature of climate change and the challenge it poses for strategy integration.

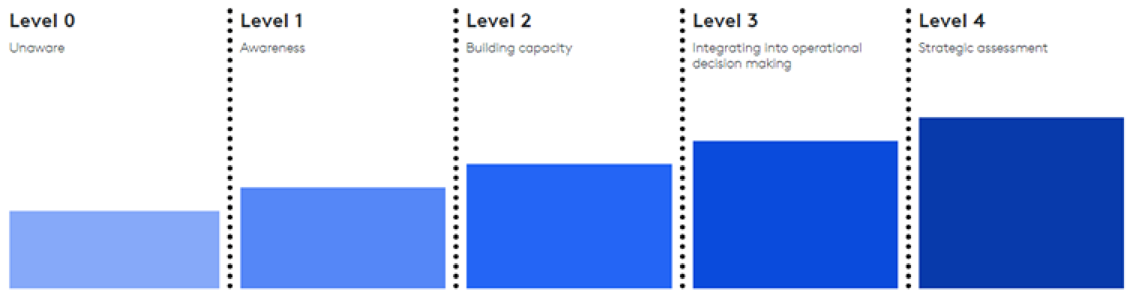
Our starting point is to ensure managers share our beliefs and have the capabilities to meet our requirements. In appointing third party managers we routinely assess their approach to responsible investment and the integration of environmental, social and corporate governance (ESG) factors. Our 'Manager ESG Rating approach' incorporates a detailed Due Diligence Questionnaire which includes specific questions on assessing, monitoring and reporting on climate change. Questionnaire responses inform our detailed selection and appointment process.

Identifying the risks client portfolios face from climate change requires quantitative measurement along with qualitative interpretation. Measurement and monitoring require information. We are continually seeking data and tools to help us to assess the position of individual companies and support our evaluation of the aggregate position at headline level. Use of tools such as Transition Pathway Initiative (TPI) aids our assessment of companies and informs our ongoing dialogue with managers around their own evaluation of the climate change risks their portfolios encompass. Our main focus to date has been on listed equities where information is most readily available, but learning gained here is informing the more challenging (and ongoing) task of assessing the position of wider asset classes.

Our objective is to understand the preparedness of investee companies for the transition to a low carbon economy, support companies which are managing the risks and opportunities on behalf of shareholders and challenge those which are not. Our scrutiny and challenge are based on a consistent measure. We use data from CDP and the TPI to ensure our review of the position of our listed equities investments is referenced against external measures of corporate progress in the planning and management of climate-related business risks. The TPI toolkit is publicly available, refreshed annually and accessible to all managers without the

Transition Pathway Initiative (TPI) – Management Quality Stairway

Companies are assessed to one of 5 levels based on their position in relation to the recognition and management of transition risks. Standard questions are posed and are answered using publicly available data.



need to subscribe to a proprietary data system. We are a long-term supporter and Strategic Asset Owner Partner to the TPI.

We are also utilising data on greenhouse gas emissions to understand the position of different sectors and companies and determine the alignment of our Global Equities Fund with a below 2°C[1] pathway in order to reference our position relative to the goals of the Paris Agreement. We will be developing this methodology further and expanding it to more asset classes as the market for scenario analysis develops. This will generate a more complete picture of the alignment with, as well as resilience of, our portfolio to a below 2°C world.

We recognise that whilst all companies may ultimately be impacted by climate change, some sectors face greater risks due to their emissions intensity or involvement in traditional energy production based on fossil fuels which will need to be significantly curtailed to meet global emissions reduction targets. At a sectoral level, we have identified thermal coal extraction as a particular focus of risk. Coal is the most carbon intensive fossil fuel and the traditional energy source most likely to face declining demand in the face of rising renewable output at a reducing cost. As a consequence, we took the decision (in 2019) to cease investing in thermal coal extraction across our portfolio by progressively divesting existing holdings and placing an exclusion on further investments in this sector[2]. This approach is in line with protecting the long-term financial interests of all clients but presents challenges within private markets if pooled funds lack the facility to exclude sectors, reducing product choice. Our objective is to avoid new (future) exposure to thermal coal via exclusion whilst monitoring and managing existing exposures out of the portfolio over time where this is achievable without significant financial detriment.

Our net zero commitment (November 2021) has tightened our focus on the obligations of asset ownership and the importance of deploying stewardship resources for greatest influence. This has prompted a decision to exclude extractive fossil fuel companies from our Global Equities Fund by the end of 2021.[3] This step is an acknowledgement that the sector is not a natural match for the Fund's enduring quality bias and consumes stewardship resources disproportionate to the small exposure we might select to own long-term and the limited scope for shareholder influence this offers. Removing what has historically been a relatively small opportunity set for our Global Equities Fund will allow attention to move to a broader range of sectors impacted by transition risk and required to decarbonise. We will be considering our position on extractive fossil fuel companies within other asset classes as part of our net zero strategy development. Our approach will consider implementation routes for fulfilling our commitment to stewardship supportive of real-world decarbonisation which contributes to the acceleration of a market-wide transition aligned with the goals of the Paris Agreement.

Going forwards, we will continue to use the TPI as a measurement tool to assess carbon intensive companies and as a signal for engagement priorities with delegate managers.

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[1] Under the Paris Agreement (December 2015) countries agreed to work to limit global temperature rise to well below 2°C.The IIGCC Net Zero Investment Framework (Aug 2020) supports investors to plan for net zero emissions by 2050, an ambition aligned with limiting global warming to 1.5°C above pre-industrial levels.

[2]Companies within GICS 10102050 (Coal & Consumable Fuels)

[3]Companies within extractive fossil fuel industries are defined as those within:

- GICS 10101010 (Oil & Gas Drilling)
- GICS 10102010 (Integrated Oil and Gas)
- GICS 10102020 (Oil and Gas Exploration and Production)

Active Ownership (Voting and Engagement)

Our commitment to encouraging good corporate governance through our ownership activities includes a specific focus on climate related issues for investee companies.

Our shareholder voting approach explicitly identifies all upcoming resolutions on environmental themes. In appropriate circumstances we will support resolutions which encourage companies to recognise, evaluate, adapt to and report on climate related business risks and opportunities, or which urge them to evolve their current approach where further development is warranted. This is in line with our Shareholder Voting Policy which recognises the responsibility of asset owners to monitor and engage with investee companies in order to protect value.

Our Shareholder Voting Guidelines provide further clarity on our decision making with regards to our Shareholder Voting Policy. As part of this, we identify effective management of climate change as a priority engagement theme and provide further details on the steps we take if we believe minimum standards, such as TPI scores or alignment of targets and trajectories to the Paris Agreement, are not being met.

As part of our engagement approach, LPPI is networked with a range of organisations working on climate related agendas. These include the Principles for Responsible Investment, the Institutional Investor Group on Climate Change, the Transition Pathway Initiative and Climate Action 100+. Our interactions with these groups inform our thinking and provide opportunities to support collective initiatives which encourage companies to address climate change related business risks and report transparently on their efforts.

We support the recommendations of the FSB's Taskforce on Climate Related Financial Disclosure which identified that inadequate corporate reporting creates significant information gaps which prevent investors from evaluating the quality of climate change governance by investee companies. We encourage investee companies to develop their reporting in line with the disclosures outlined by the TCFD.

We also recognise that TCFD recommendations on enhanced reporting extend to investors and Asset Managers. As part of the evolution of our approach to climate change we reported for the first time against the TCFD disclosure requirements in 2019 on a voluntary basis. We will continue to strengthen our alignment with the TCFD and related regulations and work towards providing enhanced reporting on our activities going forward.

To ensure the continuing effectiveness of our approach to addressing climate change as part of our commitment to Responsible Investment our Stewardship Committee will review this annex to our Responsible Investment Policy on an annual basis and will update it to reflect changes in approach and further progress.

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